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Japan Peace Treaty

The Central Daily News (Nanking) published on 16 December what was reported to be a complete preparatory draft of China's proposals for the Japanese Peace Treaty. These proposals, as reported, provide for:

- 1.) Return to China of the Ryukyu Islands, and placing of Japanese Islands in the South Pacific under allied trusteeship.
- 2.) Eradication of Japanese thoughts of aggression.
- 3.) Disarmament and limitation of Japanese military strength to an internal police force.
- 4.) 40% of Japanese reparations for China.

A Chinese Foreign Office spokesman has stated that the report is not official and is not based on information provided by that ministry.

Japan - Political

Government Coalition Parties' Record in First Diet. The Social-Democrats, the Democrats and the Peoples Cooperative Party, from which coalition the Cabinet is formed, have completed the first Diet session with a good, although modest record of achievement. One hundred thirty out of one hundred ninety-six bills submitted to the Diet by the coalition have been passed including the important Coal Mine State Control bill, the abolition of the Home Ministry, the Police Reform Bill and the establishment of the Labor Ministry.

The abolition of the Home Ministry as of 31 December 1947 represents an important step in democratization. Next to the Army and Navy, the Home Ministry was the most repressive arm of the government on the Japanese people. The Home Ministry controlled State Shinto, now abolished, ran the police system, and operated local and prefectural government including the appointment of officials. Local and prefectural officials are now locally elected in accordance with the new Constitution.

The Police Reform Bill decentralizes the police system. Out of an authorized strength of 125,000 men, approximately 90,000 will be administered on the prefectural and local level. The remainder representing the water police and mobile force will be centralized under a public-safety commission whose members are to be so selected as to prevent the police from once more becoming the arm of any group which might employ the organization for undemocratic ends.

Japan - Economic

Decentralization of Japanese Economic Power. Certain opposition to US policy with respect to economic control in Japan is reported to be leading to a re-survey of the entire problem by the State Department. The US policy as set forth in FEC - 230 provides for steps to be taken which will purge the economic field of individuals who have in the past exercised a dominating position in Japanese economic life, and which will dissolve the Zaibatsu, the great combines which formerly directed the Japanese economy and without whose wealth and power Japan could not have attempted a great war.

Steps have already been taken by the Japanese Government under the supervision of SCAP to implement the policies enunciated in FEC - 230. The Government has decided to purge all Zaibatsu executives and to prohibit them from working with any of the affiliated firms for the next ten years. Major laws which have been passed to effect the dissolution of the Zaibatsu and to prevent the growth of similar combines in the future are an Anti-Trust and Fair Trade Act, a Securities and Exchange Law, and an economic decentralization bill (See RE/P Branch Weekly - 15 December 1947). The latter bill is of particular consequence since it splits the Japanese economic structure into small units.

The FEC - 230 policies plan for an experiment of novel proportions and character, embracing as they do the reorganization and reformation of a nation's entire economy. As a result, it is doubtful that industrial or financial groups will in the future be able to wield the country into position to wage a great war. On the other hand, it must be determined what effect the new small-business Japan will have upon US security.

Reparations. Unanimous acceptance of the US proposal for the division of reparations shares is not impossible. (See WH/P March Weekly - 9-15 December 1947) The complete reversal of the Chinese position on December 11 has been followed by a UN announcement that they are reviewing their position, and the USSR delegate in a private conversation has hinted at a faint possibility of a reconsideration of the Soviet rejection of the proposal. With Australia, New Zealand, Canada and China giving unqualified support and France having announced her "approval", a UN acceptance might pave the way for ultimate unanimous acceptance of the proposal, or would at least make possible a US interim directive to effectuate the division of reparations backed by a ten member acceptance.

Korea KOREA

The most significant recent development in Korea has been the marked change in attitude of Rhee Syngman and his followers with respect to the forthcoming UN-observed elections. Indications are that this servant of the Right has decided to drop its demand for any "immediate election" prior to the arrival of the UN Commission and will join the Kim Koo faction as a united front to assist the Commission. Although Rhee has not specifically renounced his former stand, it is probable that he is about to yield to the overwhelming pressure of Korean mass opinion which favors assisting the UN Commission in its work.

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CHINA DIVISION

Military

Fighting has broken out around the outer defenses of Mukden and along the Mentsin-Mukden rail line, which has been cut in three places by Communist units. Extensive Communist troop movements into these areas indicate that a major winter offensive may be developing. The precariousness of the Nationalist position has been intensified by the loss of the only supporting railroad from China proper, and the freeing of the ports of Huludao and Yingkow. Nationalist units, weakened by a defensive mentality, probably cannot prevent the Communists from occupying Chian chun and Kirin.

Action in central China centered around the Honan cities of Luifeng and Chengchow. Communist forces under Chen Yi have cut both the Pingnan and Lunghai railroads nearby and, according to one report, occupied Luifeng.

Internal

The results of the November elections have not yet been announced, and the National Government is evidently going on with its plans to "put the constitution into effect" on 25 December, although the National Assembly will not have met and other scheduled elections will not have been held. Ch'ao Li-fu, leader of a very influential group of extremists within the Kuomintang, is reported to be seeking election to the Legislative Yuan, possibly as a prelude to displacing Sun Fo as president of that body. Ch'ao is probably strong enough to obtain Sun's post if he wants to, but whether he has a decided desire to take a position of such obvious prominence is doubtful.

External

Reports from late October state that the return of the Soviet Ambassador to China has again been postponed and Soviet officials had no information on his new date of return. According to the report, the Soviets in China are apparently holding to a "wait and see" policy pending clarification of the US policy in China. The Ambassador, Litov, is said "not to be in trouble" with higher authorities.

The American-owned Shanghai Evening Post and Mercury protested against the Shanghai Newspaper Publishers Guild which, the paper claims, reduced the Post's newsprint quota 50% and the British-owned North China Daily News 90%, while no Chinese-owned journals were reduced. The Guild is entrusted by the Chinese Government with allocating newsprint quotas. Both newspapers have been sharply critical of the Chinese Government. A protest to the American Embassy has been made by the owner of the Post and Mercury, Randall Gould, and the Embassy has stated that it will take up the question with the

Chinese Government.

The Military Attache Hankow reports of evidence that a secret agreement had been made by China with Russia wherein China recognized Soviet absorption of the Baltic states. Officials of the Foreign Ministry admitted recognition but refused details.

Reports dated October 1947 told of the reactivation of Soviet offices in Lanchow where the Soviet Consular office had been closed down in the Fall of 1946 at the request of the Chinese Government. The Chief Secretary of the Trade Representation of the USSR in China stated that Torgpredstvo had been for some months and still was operating an office in Lanchow, and was encountering no Chinese resistance to its operation. Since Lanchow is astride the only road from China proper into Sinkiang and has been mentioned as the point through which pass some highly desirable commodities and the point to which the Soviets had hoped to extend the operations of the Hsian-Shan Airline, the reactivation of a Soviet office may be significant.

An October report from a recent traveler in Szechuan and Sinkiang states that Soviet agents in Sinkiang in recent months have been able to purchase "very large quantities" of gasoline flown into Lanchow or Kaili or sometimes Tientsin by Chinese pilots usually attached either to the CAF or to commercial airlines. The gasoline is sold at its ultimate destination at tremendous profit. Such an extreme demand for gasoline by the Soviets in Sinkiang would appear to be important.

Economic

Currency. A temporary stabilization of the money market was registered during the past week. This was chiefly due to: (1) profit-taking following the 10 December release of new large denomination notes, (2) the news that the issuance of the new bills will be gradual, (3) tighter money, and (4) reported government police action resulting in arrests of brokers, and closing of 195 Shanghai exchange shops. Examples of US dollars blackmarket exchanges from high of previous week compared with rate on 19 December: At Tientsin it fell from 220,000 to 170,000 on the 19th; Hankow dropped from 160,000 to 142,000 on the 19th; after hitting a high of 170,000 on 10 December, Shanghai quotations have fluctuated mostly between 145,000 and 150,000 and was 155,000 on the 19th. The official open rate was raised on the 19th from 74,000 to 84,000, still about half the blackmarket rate.

Between now and the lunar New Year two possible conflicting factors may influence the blackmarket, (1) the Chinese year-end settlements tending to increase demand for local currency causing tightening of the money market, and (2) year-end bonuses by government and private concerns (some of which begin in December) would inject more money to the market.

Prices. Efforts to stop price increases during the past week

were less successful, however, as prices were reported up 20% in Shanghai and Hanking. Rice exceeded CN 1 million per 172 lb picul at the beginning of the week, then dropped slightly, but not in line with the exchange drop.

Banking. According to an Executive Yuan official the Executive Yuan did not "pass" the measure providing for revaluation of prewar CN dollar deposits in all banks operating in China. The Executive Yuan merely transmitted to the Legislative Yuan proposals for such revaluation, initiated by Shanghai Chinese bankers. The official stated that the Legislative Yuan would definitely not pass any such measure within the next few days, but might do so one month hence.

Telecommunications. Radio telephone service was opened between Tientsin and Hanking on 22 November.

Pilots' Strike. The strike of the Shanghai river pilots which has caused concern and inconvenience to the shipping companies of Shanghai since 27 November has been settled. The strike began when the pilots demanded an upward revision of tariff of pilot fees. The pilot's income is derived entirely from these fees which are divided by them and the government in ratio of 55% to the former and 45% to the latter. The pilots had requested stabilization of their tariff of charges in order to meet fluctuations of Chinese currency. The strike ended with the Bureau of Navigation taking over pilotage from the Customs authorities. Prewar pilots are to be given five year contracts with renewal option and no new foreign pilots are to be engaged. The pilots who substituted during the strike will be given an opportunity to apply for regular service.

Salt. The total output of salt in 1947 is estimated at 7 million piculs (433 1/3 lbs). 5 of the 7 million piculs are from privately owned fields. The supply is considered ample for local requirements, but hoped-for exports to Japan and Korea did not materialize.

UNRRA Fish Catches. UNRRA's efforts to increase fish catches and lower prices have been stymied at Shanghai. One faction of the fish market has refused landing of UNRRA catches because it would lower high prices and profits, while other government factions are seeking to force prices down. Minister of Agriculture Tso is reported to favor vested fishing interests. No definite policy settling the dispute has yet been announced by the government.

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SOUTHERN DIVISION

BURMA-

The threatened break between the Peoples Volunteer Organization (PVO) and the Socialists (PE/T Branch Weekly, 16 December) has been averted, for the present, due to the timely intervention of the Burmese Prime Minister and his deputy. A public announcement has designated 30 April 1948 as the date for the postponed fusion of the two groups into the Marxist League. It remains doubtful, however, that the PVO will demilitarize, as promised by its founder Aung San, or that the merger will be accomplished, at least in its original form whereby the Socialists would have possessed considerable influence in the government. Personality and ideological differences may increase during the interim period, to such a point that union between the two groups may become impossible.

PHILIPPINES

Coinciding with the increasing rumors of impending revolt in the Philippines has been a request from the Philippine Government for additional financial assistance. Conversations were initiated on 17 November and 11 December in Washington between Philippine Ambassador Elizalde and the State Department during which rather urgent pleas were made for an outright grant of 200 million dollars or a loan of 800 million dollars. This matter was the subject of a conversation between US Ambassador O'Neal and President Roxas on 17 December in Manila. Reports of this conversation have given no indication of an urgent need for assistance but it was agreed that further exploration was necessary in order to determine specific projects, amounts and categories.

The death of Benigno S. Aquino from a heart attack on 21 December removes from the Philippine scene one of the top wartime political collaborators whose trial for treason was pending before the People's Court. During the occupation Aquino held a succession of important offices under the Japanese-controlled government which culminated in his appointment as Vice-President and Director-General of the Kalibapi, major propaganda organ of the Japanese.

Although trials of top political collaborators in the Philippines have met with continual delay and indifference and will result in few, if any, convictions, it is possible that had Aquino lived his case would have resulted in a conviction. This elimination by death of one of the most strongly accused may serve as an excuse for more vigorous attempts to secure a general amnesty.

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#### AUSTRALIA

First shipments of the record 220 million bushel Australian wheat crop will include 80 million bushels to the United Kingdom and 25 million to India and Ceylon.

Czechoslovakia is anxious to obtain Australian wheat and wool on an exchange arrangement whereby she will make payments in glassware, textiles, and manufactures.

Australian dollar expenditures for 1947-48 will be kept within a ceiling of 85 million pounds. The severity of import restrictions involved is indicated by the fact that in the three-months period ending October 1947, imports received were valued at 95 million pounds.

#### NEW ZEALAND

Dollar imports for 1947-48 will be restricted to less than half those of the present year. "Essentiality" will be the criterion on which applications for import licenses will be judged. Petrol, tobacco, and newsprint will be drastically affected though some imports of raw materials for New Zealand's industries will probably be continued.

A one million pound sterling credit will be extended to Czechoslovakia for the purchase of New Zealand wool. The loan, at 2 1/2% interest, will underwrite 50% of Czechoslovakia's wool purchases over the next five years.

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